

TORONTO STOCK EXCHANGE

LISTING STATEMENT

THE ARO EQUIPMENT CORPORATION

(An operating company incorporated under the laws of the State of Ohio January 23, 1930)

Common Shares of the Par Value of \$2.50 Each
(Transferable in Toronto and Chicago, Illinois)
Capital Securities as At April 15, 1955

		Number of Shares		
Capital Stock	Par Value	Authorized	Outstanding	To be listed
Preferred.....	\$50.00	50,000	21,900	None
Common.....	\$ 2.50	1,000,000	500,487	528,187*

*Of the 528,187 shares to be listed, 27,700 shares are listed subject to notice of issuance (See Item 1 below).

Bryan, Ohio
April 25, 1955

1. APPLICATION

The Aro Equipment Corporation, an Ohio corporation (hereinafter sometimes called "the Company") hereby makes application for listing on the Toronto Stock Exchange of 528,187 common shares of \$2.50 par value each. 500,487 being its currently outstanding total number of shares and 27,700 being the total number of shares reserved for issuance to officers and key employees under the Company's Stock Option Plan.

2. HISTORY

The Company, whose principal executive offices are located at Enterprise and Trevitt Streets, Bryan, Ohio, was incorporated under the laws of the State of Ohio on January 23, 1930. It is a leading manufacturer of high and low pressure lubricating equipment, portable pneumatic tools and aircraft accessories. In 1950 the Company acquired the assets of Taylor Machine Company in Cleveland, Ohio and since that time has conducted manufacturing operations in Cleveland, consisting primarily of aircraft accessories. The Company also operates sales branches in Detroit, Michigan and New York City, New York. A wholly owned subsidiary, Aro Equipment of Canada, Ltd., was chartered November 20, 1944. This operation consisted primarily as a Canadian sales outlet until October, 1954, when construction was begun on a 25,000 sq. ft. plant in Toronto, Ontario. Plans include limited manufacture in the near future. On April 15, 1944, shareholders of the Company approved an amendment to its charter authorizing the Company to engage in the oil exploration business. The Company has followed the practice of conducting its drilling operations in cooperation with experienced operators and syndicates on a participating-interest basis only. The Company now holds interests ranging for the most part from one-fourth to one-half in producing properties located in Texas, Oklahoma, Kansas, Illinois and Indiana.

3. NATURE OF BUSINESS AND NUMBER OF EMPLOYEES

Prior to World War II, the business of the Company was principally in the lubricating equipment field. The pneumatic tool line was introduced in 1939 and this was followed by aircraft accessories involving similar manufacturing techniques. Lubricating equipment has been made by the Company from the inception of operations. From a modest line in 1930, the Company has improved and expanded the equipment, fittings and accessories which it offers until its line is as comprehensive as that of any competitor. The equipment presently produced is capable of servicing all types of automobiles and trucks and of providing satisfactory facilities for all sizes of service stations and garages. Products manufactured include air-powered pumping units, multiple grease dispensing cabinets, automatic hose reels and cabinets, quick connectors for air lines, material handling pumps, cabinet-type portable lubricators, remote control lubricators, hand-operated grease guns, oil and grease meters, specialized lubrication gun sets, lubricating accessories and hydraulic grease fittings. Distribution of the Company's lubricating equipment is made through its factory branches and in Canada through its wholly owned Canadian subsidiary. Sales are made primarily to automotive parts and accessories jobbers, as well as direct to major oil and farm implement companies. To diversify its business, the Company in 1937 began experimental research on portable pneumatic tools. However, it was not until 1939 that a sufficiently broad line of tools had been engineered and put into production to permit issuance of a comprehensive pneumatic tool catalog. The Company's line of pneumatic tools met with immediate and increasing acceptance because of the rapidly growing use of such

This listing statement is a copy of the listing application made by the applicant company. The Exchange has received no consideration in connection with the issue of this listing statement other than the customary listing fee. The papers and exhibits submitted by the applicant company in support of the listing application are open for inspection at the general office of the Exchange.

tools by industry. Products currently manufactured include power wrenches for production assembly, air powered screw drivers, air operated precision grinders, automotive air tool kits, power motors for aircraft applications, pneumatic sanders and polishers, air equipment accessories, heavy duty grinders and pneumatic electrode dressers.

The Company distributes its industrial pneumatic tools through its own sales force, industrial jobbers and mill supply houses throughout the country and in Canada through its wholly owned subsidiary.

During World War II the Company entered the aircraft accessories field, selling principally to the United States Government and agencies thereof. After the close of World War II, the manufacture and sale of aircraft accessories by the Company were minor until the year 1950 when the Company again entered this field by beginning manufacturing operations in its Cleveland, Ohio plant. The Company sells these products to both military and commercial users. Products manufactured include automatic pressure breathing oxygen regulators, liquid oxygen converters, gauges and valves, pressure regulating valves, air pumps for aircraft and accessories, aircraft vacuum pumps and accessories, demand oxygen regulators, water vapor detectors, constant flow oxygen regulators for passenger aircraft, oil separators, high pressure hydraulic pumps, hydraulic cylinders, hydraulic control valves and accessories for hydraulic equipment.

Distribution of aircraft accessories is accomplished by sales direct to the United States Government, airframe manufacturers and commercial airlines.

At the present time, The Aro Equipment Corporation and wholly owned Canadian subsidiary have approximately 1300 employees.

Net Sales by Years

Year	Amount
1950.....	\$ 5,536,968
1951.....	9,253,792
1952.....	16,250,201
1953.....	19,064,165
1954.....	20,087,621

4. INCORPORATION AND CAPITAL CHANGES

The Aro Equipment Corporation was incorporated under the laws of the State of Ohio on the 23rd day of January, 1930.

As at October 8, 1934, the authorized capital stock of the Company was changed from the original 3,500 shares of no par value (stated value \$80.00 a share) to 50,000 shares of a par value of \$5.00 a share. As at that date, 49,140 shares of a par value of \$5.00 a share were exchanged for 2,730 shares of no par then outstanding. The excess (\$27,300.00) of the par value of 49,140 shares at \$5.00 a share over the stated value of 2,730 shares at \$80.00 a share was charged to the earned surplus account and credited to the capital stock account.

As at July 21, 1936, the authorized capital stock of the company was changed from 50,000 shares of a par value of \$5.00 a share to 100,000 shares of a par value of \$2.50 a share and the outstanding shares exchanged accordingly.

As at December 24, 1936, the authorized capital stock of the Company was changed from 100,000 shares of a par value of \$2.50 a share to 30,000 shares of convertible class A stock of a par value of \$5.00 a share and 500,000 shares of common stock of a par value of \$1.00 a share. As at that date 16,000 shares of convertible class A stock and 156,918 shares of \$1.00 par value common stock were exchanged for the then outstanding 98,280 shares of \$2.50 capital stock. The excess (\$8,782.00) of the par value of 98,280 shares of capital stock at \$2.50 a share over the par value of 16,000 shares of convertible class A stock at \$5.00 a share and 156,918 shares of common stock at \$1.00 a share was credited to the paid-in surplus account.

As of April 10, 1937, the charter of the Company was amended to eliminate all authorized class A stock, and the holders of such stock surrendered their shares to the Company, the par value of which (\$80,000.00) was transferred to paid-in surplus.

As at May 8, 1943, 1,918 shares of common capital stock held in the treasury were cancelled and (\$16,610.00) the excess of the cost thereof over par value was charged to the earned surplus account.

On June 8, 1943, as a result of a stock split-up, 155,000 additional Common Shares were issued to the holders of the then outstanding 155,000 Common Shares on a share for share basis. In connection therewith, the total par value of \$155,000.00 was credited to the capital stock account and the consequent charge first allocated to the paid-in surplus account in sufficient amount to exhaust the balance therein (\$85,234.72) and the remainder (\$69,765.28) charged to the earned surplus account.

As at July 27, 1943, the charter of the Company was amended to increase the par value of the authorized 500,000 shares of common capital stock from \$1.00 to \$2.50 a share. The credit to the capital stock account (\$465,000.00) for the 310,000 shares then outstanding was charged to the earned surplus account.

On March 8, 1945, the charter of the company was amended to increase the authorized number of shares of the Company to 1,050,000, consisting of 1,000,000 Common Shares with a par value of \$2.50 and 50,000 Preferred Shares with a par value of \$50.00.

On March 20, 1945 the Company sold 30,000 shares of 5% Cumulative Convertible Preferred Stock, par value \$50.00 for \$1,500,000.00 less \$7,500.00 discount.

On May 8, 1946 the 5% Cumulative Convertible Preferred Shares, par value \$50.00 were redeemed and 30,000 Preferred Shares, 4½% Series were issued. The preferred stock, 4½% series, is redeemable at any time at the option of the Company, in whole or in part, at \$50.00 per share and accrued dividends, plus a premium of \$2.50 per share if redeemed on or before March 1, 1956 and \$2.00 per share if redeemed thereafter.

The Company is required, within 120 days after the close of each year to set aside in a sinking fund for the retirement of the preferred stock, a maximum sum equal to 3% of the aggregate par value of the greatest number of such preferred shares theretofore outstanding. Credit for this requirement may be taken by the retirement of 900 shares of the preferred stock each year. Pursuant to the foregoing, 900 shares were retired in each of the years 1947 through 1954.

5. OPINION OF COUNSEL

The opinion of the Company's counsel, Messrs. Shumaker, Loop & Kendrick of Toledo, Ohio is hereby incorporated by reference and made a part hereof. The opinion states that The Aro Equipment Corporation is a corporation properly organized and existing under the laws of the State of Ohio; that the common shares which it is contemplated will be listed on the Exchange are proper and valid, fully paid and nonassessable outstanding common shares of the company.

6. SHARE ISSUES DURING PAST 10 YEARS

Date of Issue	Number of Common Shares	Amount Per Share	Total Amount	Purpose of Issue
12-21-45	5,000	\$6.25	\$31,250.00	Exercise of stock option by Mr. J. P. Johnson, Vice President and Director, under an agreement dated 12-31-42.
5- 8-46	20,000	23.275	465,500.00	To finance redemption of 5% Cumulative Preferred Shares and for the purpose of financing a portion of the cost of capital improvements.
6-12-52	33,432	None	—	10% stock dividend
11-26-52	36,634	None	—	10% stock dividend
7-31-53	40,231	None	—	10% stock dividend
4-15-54	6,679	None	—	11½% stock dividend
7-15-54	6,779	None	—	11½% stock dividend
9-20-54	19,800	13.42	265,716.00	Exercise of stock options granted to officers and key employees under a plan approved by stockholders May 28, 1953.
	2,500	15.40	38,500.00	
10-15-54	9,620	None	—	2% stock dividend
1-15-55	9,812	None	—	2% stock dividend
	190,487			

7. STOCK PROVISIONS AND VOTING POWERS

Except as otherwise expressly provided in the Articles of Incorporation, or as otherwise required by the laws of the State of Ohio, the holders of Common Shares possess all of the voting powers of the Company for the election of directors and for all other purposes, and the holders of the Preferred Shares have no voting power and no holder thereof shall be entitled to receive notice of any meeting of shareholders.

The Board of Directors may, subject to restrictions relating to Preferred Shares, declare and pay dividends on the Common Shares. Holders of Common Shares are entitled to one vote for each share held. In the event of any liquidation, dissolution or winding up of the Company, the holders of Common Shares are entitled to share ratably, after payment to the holders of Preferred Shares of the preferential amounts to which they are entitled, in all remaining assets of the Company available for distribution to its shareholders, according to the number of Common Shares held by them, respectively, to the exclusion of the holders of Preferred Shares. The holders of Common Shares have no preemptive rights nor do the Common Shares have any conversion or redemption rights and are not liable for further calls.

Holders of the Preferred Shares, 4½% Series, are entitled to receive dividends, cumulative from and after the first day of the calendar month in which issued, at the rate of \$2.25 per share per annum payable quarterly in each year before any dividends on the Common Shares shall be paid or declared or set apart for payment. It is expressly provided in the Articles of Incorporation that if the Company defaults in the payment of dividends on the Preferred Shares and such default shall continue so that six full quarterly dividends (whether or not consecutive) shall be in default, the holders of Preferred Shares are entitled to elect the smallest number of directors which shall constitute at least one third of the total number of directors and shall continue until such time as all dividends in default on the Preferred Shares shall have been paid or declared and set aside for payment. Upon dissolution, the holders of Preferred Stock shall have preference over the Common Stock until \$50.00 plus unpaid accrued dividends, plus a premium of such amount, if any, not in excess of \$5.00 a share, shall have been paid.

8. TEN YEAR DIVIDEND RECORD

Date	Rate	Amount
Common (Cash)		
Fiscal 1945	\$.75	\$232,500.00
Fiscal 1946	.50	155,000.00
Fiscal 1947	.60	201,000.00
Fiscal 1948	.60	201,000.00
Fiscal 1949	.35	117,250.00
Fiscal 1950	.50	167,500.00
Fiscal 1951	.70	234,500.00
Fiscal 1952	.60	221,059.20
Fiscal 1953	1.00	417,134.90
Fiscal 1954	.70	319,491.00
1-15-55	.20	98,124.60
Common (Stock)		
6-12-52	10%	33,432 shares
11-26-52	10%	36,634
7-31-53	10%	40,231
4-15-54	11½%	6,679
7-15-54	11½%	6,779
10-15-54	2%	9,620
1-15-55	2%	9,812
Preferred (Cash)		
1946	\$1.31¼	\$39,375.10
1947	2.25	65,980.62
1948	2.25	63,955.65
1949	2.25	61,930.68
1950	2.25	59,905.29
1951	2.25	57,880.72
1952	2.25	55,855.76
1953	2.25	53,830.73
1954	2.25	51,805.75

9. RECORD OF PROPERTIES

The Company's principal plant is located in Bryan, Ohio, on a site approximately 17 acres owned in fee. The plant is modern brick and steel structure and has floor area of approximately 250,000 square feet of production space, together with additional space for offices, warehousing and shipping.

20,000 square feet of manufacturing space are leased in Cleveland, Ohio, where production of aircraft accessories and related experimental work are conducted.

Construction of a one story brick and steel plant has been completed in Toronto, Ontario, Canada, on a tract approximately 5 acres. This plant is owned in fee by the wholly owned subsidiary, Aro Equipment of Canada, Ltd.

The Company uses modern, well maintained machinery and equipment consisting of turret lathes, grinders, milling machines, drill presses, automatic screw machines, broaching, honing and profile machines, welding equipment, anodizing, plating and heat treating equipment, and precision gauges and testing equipment.

10. SUBSIDIARY COMPANIES

Aro Equipment of Canada, Ltd. is a wholly owned Canadian subsidiary which has operated from 1944 to the present as a Canadian outlet for the Company's products.

Because of the favorable reception of these products in Canada, the Company has proceeded with the construction of a new, modern design building located in the metropolitan area of Toronto, Ontario. This building, situated on a five acre tract, has floor space of approximately 25,000 sq. ft. In addition to sales and service operations for aircraft products, pneumatic tools and lubricating equipment, a limited manufacturing program will be initiated.

Due to the dynamic growth of the Canadian economy, the Company expects this subsidiary to be an important part of its operations. Because of the diversity of the Company's products there are many important markets to be developed. Already meeting with special favor with Canadian users are Aro farm lubricating equipment for the agricultural market, pneumatic tools for all industries, high altitude oxygen equipment for the aircraft industry and quality lubricating equipment for the filling station and garage trade.

The Company is presently in process of acquiring a corporation, Aro Equipment of California, as a wholly owned subsidiary. This Corporation presently provides an outlet for the Company's products in the west coast area, but is not of major importance in the overall operation at this time.

12. STOCK OPTION AGREEMENTS

Under a plan approved by stockholders in 1953 the Board of Directors may from time to time, subject to certain limitations, grant to officers and other key employees, options to purchase shares of common stock of the Company at prices not less than 95% of the market price on the dates the options are granted. The options are exercisable at any time within five years from the date granted. During 1954 options were issued and exercised on 22,300 shares and at the present time 27,700 shares of common stock are reserved for options which may be granted in the future.

13. LISTING ON OTHER STOCK EXCHANGES

The presently outstanding Common Shares of the Company are listed on The American Stock Exchange and on The Midwest Stock Exchange.

14. STATUS UNDER SECURITY ACT

No prospectus has been filed with the Ontario Securities Commission as none was required. Form 10K was filed with the Securities and Exchange Commission in the United States, March 30, 1955.

15. FISCAL YEAR

November 30.

16. ANNUAL MEETING

Annual meetings are held in Bryan, Ohio, the second Thursday in April. Last meeting was April 14, 1955.

17. HEAD AND OTHER OFFICES

Head Office — Enterprise and Trevitt Streets, Bryan, Ohio.

Sales Offices — 8799 Lyndon, Detroit, Michigan, and 37-29 33rd Street, Long Island City, New York.

18. TRANSFER AGENT

Harris Trust and Savings Bank of Chicago, Illinois.

Montreal Trust Company, Toronto, Ontario, Canada.

19. TRANSFER FEE

No fee is charged other than the customary Government stock transfer taxes.

20. REGISTRAR

Continental Illinois Bank and Trust Company of Chicago, Illinois. Montreal Trust Company, Toronto, Ontario, Canada.

21. AUDITORS

Arthur Young & Company, Certified Public Accountants, Toledo, Ohio.

22-23 OFFICERS AND DIRECTORS

John C. Markey.....	Bryan, Ohio.....	President and Director
Lemuel L. Hawk.....	Bryan, Ohio.....	Secretary, Treasurer and Director
Ralph W. Morrison.....	Bryan, Ohio.....	Vice President and Director
Alvar N. Abelson.....	Bryan, Ohio.....	Vice President and Director
Marquard J. Anderson.....	Bryan, Ohio.....	Vice President and Director
Nobel M. Calvert.....	Bryan, Ohio.....	Assistant Treasurer
Russell K. Mignery.....	Bryan, Ohio.....	Assistant Secretary
John R. Markey.....	Bryan, Ohio.....	Director
Dr. Charles V. Kinter.....	427 North Sheridan Road.....	Director
	Lake Forest, Illinois	
Joseph E. Otis, Jr.....	500 South Union Street.....	Director
	Mishawaka, Indiana	
Ralph A. Bard.....	208 South LaSalle Street.....	Director
	Chicago, Illinois	
Ralph E. McConnell.....	2037 North Broad St.....	Division Manager and Director
	Philadelphia, Pa.	

CERTIFICATE

Pursuant to a resolution duly passed by its Board of Directors the applicant Company hereby applies for listing of the above mentioned securities on The Toronto Stock Exchange, and the undersigned officers thereof hereby certify that the statements and representations made in this application and in the documents submitted in support thereof are true and correct.



THE ARO EQUIPMENT CORPORATION

R. W. MORRISON, Vice-President

R. K. MIGNERY, Assistant Secretary

STATEMENT SHOWING NUMBER OF SHAREHOLDERS

Distribution of Common stock as of February 28, 1955

822 holders of	1 —	100 share lots.	30,974
446 " "	101 —	200 " "	56,289
119 " "	201 —	300 " "	29,235
31 " "	301 —	400 " "	10,587
35 " "	401 —	500 " "	15,877
69 " "	501 —	1000 " "	49,148
69 " "	1000 —	up " "	308,377
1591 Stockholders			Total shares 500,487

FINANCIAL STATEMENTS

Consolidated Balance Sheet as of November 30, 1954

ASSETS

CURRENT ASSETS:

Cash.....	\$ 1,711,445.46
U.S. Government securities, at cost approximating market.....	1,298,493.93
Accounts receivable, including U.S. and Canadian Government receiv- ables of \$274,593.85	\$ 1,731,584.64
Less: Allowance for losses.....	66,000.00
	1,665,584.64
Inventories — raw material, work in process and finished goods, at lower of cost or market	3,282,768.44
Prepaid expenses.....	80,411.52

TOTAL CURRENT ASSETS 8,038,703.99

OTHER ASSETS:

Miscellaneous notes and accounts receivable.....	273,090.52
Cash surrender value of life insurance	72,293.84
Miscellaneous securities, at cost.....	22,427.97
	367,812.33

OIL WELLS — leases, equipment, development costs, etc., at cost, less de-
preciation and depletion 419,131.03

PROPERTY, PLANTS AND EQUIPMENT, AT COST (Note 1):

Land	51,157.11
Buildings	733,281.88
Machinery and equipment	1,717,142.22
Furniture and fixtures	130,871.23
Automobiles, trucks, etc.....	97,493.65
	2,729,946.09
Less: Accumulated depreciation and amortization	1,279,793.65
	1,450,152.44

PATENTS AND TRADEMARKS — nominal value 1.00

TOTAL..... \$10,275,800.79

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 1,268,906.77
Federal and Canadian taxes on income	1,734,624.08
Dividends payable	12,607.94

Accrued liabilities:

Taxes, other than taxes on income.....	\$ 26,359.94
Payrolls, commissions, etc.	410,426.88
Pension and profit sharing trust contributions (Note 2).....	199,868.93
Royalties	74,689.81
	711,345.56

TOTAL CURRENT LIABILITIES 3,727,484.35

STOCKHOLDERS' EQUITY:

Cumulative preferred stock, \$50.00 par value (50,000 shares authorized) 4½% series, authorized and issued 22,800 shares (Note 3)	1,140,000.00
Common stock, \$2.50 par value (1,000,000 shares authorized) 490,675 shares issued (Note 4).....	1,226,687.50
Paid-in surplus	2,050,644.66
Earned surplus	2,157,208.82
	6,574,540.98

Less: Stock held in treasury, at cost:

599 shares of cumulative preferred stock	\$25,714.50
52 shares of common stock	510.04
	26,224.54
	6,548,316.44

TOTAL..... \$10,275,800.79

See accompanying notes to financial statements.

STATEMENT OF CONSOLIDATED INCOME
Years ended November 30, 1954, 1953, 1952 and 1951

	1954	Years ended November 30,		1951
	1953	1952		
GROSS PROFIT FROM SALES	\$5,592,674.34	\$5,177,194.67	\$4,365,114.97	\$3,021,153.92
SELLING AND ADMINISTRATIVE EXPENSES.....	2,645,661.64	2,758,457.12	2,202,135.45	1,998,058.60
OPERATING PROFIT.....	2,947,012.70	2,418,737.55	2,162,979.52	1,023,095.32
PROFIT (LOSS) FROM OIL VENTURE:				
Expense of exploration and promotion and charge-off of costs of nonproductive wells	(156,756.27)	(209,125.88)	(130,489.04)	(25,558.73)
Less: Net income — productive wells	60,487.57	50,038.49	91,317.96	85,041.27
	(96,268.70)	(159,087.39)	(39,171.08)	59,482.54
	2,850,744.00	2,259,650.16	2,123,808.44	1,082,577.86
OTHER INCOME (DEDUCTIONS) — NET	22,611.39	8,648.00	(13,396.90)	32,883.31
NET INCOME BEFORE PROVIDING FOR TAXES ON INCOME.....	2,873,355.39	2,268,298.16	2,110,411.54	1,115,461.17
PROVISION FOR TAXES ON INCOME:				
Federal taxes on income (includes excess profits tax \$43,000.00 in 1954, \$373,000.00 in 1953, \$370,000.00 in 1952 and \$121,000.00 in 1951).....	1,557,000.00	1,449,000.00	1,445,000.00	625,000.00
Canadian income taxes	93,000.00	31,000.00	5,000.00	10,000.00
	1,650,000.00	1,480,000.00	1,450,000.00	635,000.00
NET INCOME FOR THE YEARS	<u>\$1,223,355.39</u>	<u>\$ 788,298.16</u>	<u>\$ 660,411.54</u>	<u>\$ 480,461.17</u>

STATEMENT OF CONSOLIDATED SURPLUS
Years ended November 30, 1954, 1953, 1952 and 1951

	1954	Years ended November 30,		1951
	1953	1952		
PAID-IN SURPLUS:				
Balance at beginning of years.....	\$1,477,579.98	\$1,087,917.80	\$ 494,968.10	\$ 462,736.80
Add: Excess of average market value over par value of common stock issued as dividends to common shareholders (shares issued — 23,078 in 1954, 40,231 in 1953 and 70,066 in 1952).....	317,719.62	382,194.50	586,402.50	—
Premium on 22,300 shares of common stock sold under stock option	248,466.00	—	—	—
Excess of par value over cost of 900 shares of preferred stock retired each year.....	6,879.06	7,467.68	6,547.20	8,371.00
Excess of market value over cost of 4,379 shares of common treasury stock applied as part of consideration for acquisition of stock of subsidiary	—	—	—	23,860.30
BALANCE AT END OF YEARS	<u>\$2,050,644.66</u>	<u>\$1,477,579.98</u>	<u>\$1,087,917.80</u>	<u>\$ 494,968.10</u>
EARNED SURPLUS:				
Balance at beginning of years.....	\$1,578,706.54	\$1,666,427.72	\$2,126,407.22	\$1,787,757.18
Net income for the years.....	1,223,355.39	788,298.16	660,411.54	480,461.17
Elimination of reserve for contingencies	100,814.82	—	—	—
	2,902,876.75	2,454,725.88	2,786,818.76	2,268,218.35
Dividends:				
Preferred stock — cash	50,762.31	51,838.93	53,975.89	42,049.28
Common Stock:				
Cash	319,491.00	341,408.41	304,847.65	99,761.85
Stock dividends (at average market value):				
1½% (6,679 shares) April 15, 1954; 1½% (6,779 shares) July 15, 1954; and 2% (9,620 shares) October 15, 1954.....	375,414.62	—	—	—
10% (40,231 shares) July 31, 1953.....	—	482,772.00	—	—
10% (33,432 shares) June 12, 1952 and 10% (36,634 shares) November 26, 1952.....	—	—	761,567.50	—
	745,667.93	876,019.34	1,120,391.04	141,811.13
BALANCE AT END OF YEARS	<u>\$2,157,208.82</u>	<u>\$1,578,706.54</u>	<u>\$1,666,427.72</u>	<u>\$2,126,407.22</u>

See accompanying notes to financial statements.

Notes to Financial Statements

November 30, 1954

1. Property, plants and equipment:

Property, plants and equipment include assets acquired under Federal Certificates of Necessity at a cost of \$698,333.20. Of this amount \$481,722.08 was fully amortized at September 30, 1945 and the balance is being amortized over a five year period.

The Company, as permitted for tax purposes under the 1954 Internal Revenue Code, adopted the sum-of-the-digits method for computing depreciation on all fixed assets acquired subsequent to December 31, 1953, the straight-line method being continued with respect to the balance. The foregoing change had only a nominal effect on operating results for the year ended November 30, 1954.

2. Pension plans:

The Company has in effect pension and profit sharing trust plans for the benefit of substantially all salaried employees who are 30 years of age or over and have been in the continuous employ of the Company for at least 4 years. The aggregate costs of these plans to the Company have been as follows: 1951 — \$79,832.78, 1952 — \$107,096.84, 1953 — \$151,893.62 and 1954 — \$207,365.91.

3. Preferred Stock:

The preferred stock is redeemable at any time, at the option of the Company, in whole or in part, at \$50.00 per share and accrued dividends, plus a premium of \$2.50 per share if redeemed on or before March 1, 1956 and \$2.00 per share if redeemed thereafter.

The Company is required, within 120 days after the close of each year, to set aside in a sinking fund for the retirement of the preferred stock, a maximum sum equal to 3% of the aggregate par value of the greatest number of such preferred shares theretofore outstanding, however, the amount required to be so set aside need not be in excess of the Company's consolidated net income, less the dividend requirement on the preferred stock for such year.

The sinking fund requirement is cumulative, so that if earnings for any year are insufficient to require setting aside the maximum amount, the deficiency shall be set aside in the following year or years in which earnings permit. Preferred stock purchased or redeemed by the Company by the use of monies other than sinking fund cash may, upon retirement thereof, be credited at par value against any sinking fund obligation thereafter arising.

4. Stock options:

Under a plan approved by stockholders in 1953 the Board of Directors may from time to time, subject to certain limitations, grant to officers and other key employees, options to purchase shares of common stock of the Company at prices not less than 95% of the market price on the dates the options are granted. The options are exercisable at any time within five years from the date granted.

During 1954 options were granted and subsequently exercised on 22,300 shares. The option prices with respect to these 22,300 shares were \$13.42 and \$15.40 per share or a total consideration of \$304,216.00, and the market prices at the dates the options were granted and exercisable were \$14.00 and \$14.13 per share or a total value of \$314,675.00. The market prices at the dates the options were exercised were \$14.50 and \$15.50 per share with a total value of \$325,850.00. When the options were exercised the excess of the proceeds received over the par value of the common shares issued was credited to paid-in surplus. No charges were made against income in accounting for the options.

At November 30, 1954, 27,700 shares of common stock were reserved for options which may be granted in the future.

5. Renegotiation:

Proceedings for the years 1951 and 1952 were concluded with a determination that no refunds were required. While renegotiation has not been concluded for 1953 nor commenced for 1954, it is the opinion of the management that if any refunds are required they will not be material and accordingly no provision has been made therefor in the accounts.

The Board of Directors,

The Aro Equipment Corporation:

We have examined the consolidated balance sheet of The Aro Equipment Corporation and subsidiary at November 30, 1954 and the related statements of income and surplus for the four years ended November 30, 1954. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm receivables from the U.S. and Canadian Governments, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the above-described statements present fairly the financial position of The Aro Equipment Corporation and subsidiary at November 30, 1954 and the results of their operations for the four years ended November 30, 1954, all in conformity with generally accepted accounting principles applied each year on a basis consistent with that of the preceding year except for the change, which we approve, in method of computing depreciation as explained in Note 1.

ARTHUR YOUNG & COMPANY.

